

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 2556

January 18, 2010

SUMMARY OF BILL: Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 5.0 percent.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$45,048,600

Decrease Local Revenue – \$2,168,400

Other Fiscal Impact – Beginning in FY11-12, there will be additional forgone revenue to state and local governments due to the natural growth of taxable food sales. As taxable food sales grow each year, forgone sales tax revenue will increase. Assuming taxable food sales grow by 2.0 percent from FY10-11 to FY11-12, total forgone sales tax revenue for FY11-12 would be approximately \$944,400. Of this amount, the state would forgo approximately \$901,000, and local governments would forgo approximately \$43,400 as a result of state-shared sales tax apportionment. These forgone amounts will increase each subsequent year by the rate at which taxable food sales grow in the future.

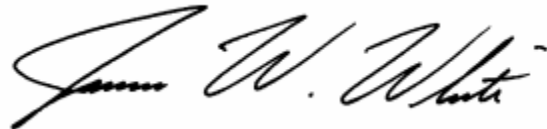
Assumptions:

- An effective date of July 1, 2010.
- “Food and food ingredients” means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.
- “Food and food ingredients” does not include alcoholic beverages, tobacco, candy, dietary supplements, or prepared food.
- According to the Department of Revenue, approximately \$496,780,000 in sales tax revenue was collected from the sale of food and food ingredients during FY08-09 (from August 2008 through July 2009).
- Taxable sales of food and food ingredients for FY08-09 is estimated to be \$9,032,363,600 ($\$496,780,000 / 5.5\%$ rate = \$9,032,363,636).
- Based on recent price increases as measured by the Consumer Price Index for Food (Source: U.S. Department of Agriculture), food prices are estimated to increase by 2.0 percent in each of the next two years (FY09-10 and FY10-11).

- Taxable food sales are estimated to increase by an additional 0.25 percent in FY10-11 due to the elasticity factor resulting from the 0.50 percent tax rate reduction as proposed.
- Taxable sales for FY10-11 (adjusted for two years of growth and elasticity factor) are estimated to be \$9,443,392,600 $[(\$9,032,363,600 \times 102.25\%) \times 102.25\% = \$9,443,392,596]$.
- The decrease of state sales tax revenue is estimated to be \$47,217,000 $(\$9,443,392,600 \times 0.5\% = \$47,216,963)$ in FY10-11.
- The estimated \$47,217,000 in state sales tax revenue would be apportioned as follows in FY10-11: \$13,704,500 to the General Fund, \$30,736,900 to the Education Fund, \$2,168,400 to local governments, \$173,500 to the Department of Revenue, and \$433,700 to the Sinking Fund.
- The net decrease to state revenue for FY10-11 is estimated to be \$45,048,600 $(\$47,217,000 - \$2,168,400 \text{ local share} = \$45,048,600)$.
- Local governments are not held harmless from the loss of state-shared sales tax revenue (\$2,168,400 in FY10-11).
- There will be additional and increasing amounts of forgone sales tax revenue in subsequent years due to the natural growth of taxable food sales.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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